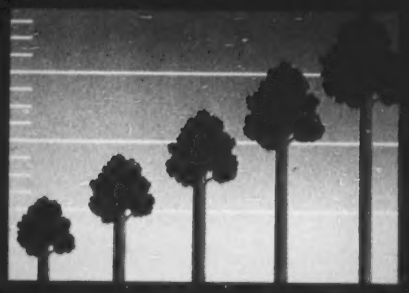
THE INC. 100

C4687-1
5/7/87

# 1987's FASTEST-GROWING SMALL PUBLIC COMPANIES



02248
♦1♦4F**********ALL FOR STATE
♦4500WCSRI93♦
460541 450 OWCSRI90 444DSAMPLE
CONG INFO SERV COPY
SRI ACQUISITION 05♦00
4500 E WEST HWY
BETHESDA MD 20814

# CONTENTS

## FEATURES


**48** INC. COVER STORY
**The INC.100**
America's fastest-growing small public companies

**58** THE INC. 100
**The INC.100 Portfolio** *BY JOSHUA HYATT*
The numbers don't tell it all. Behind every fast-growing company is a winning strategy and the person who devised it

**68** THE INC. 100
**From Riches to Rags . . . and Back** *BY ROBERT A. MAMIS*
For the first time in four years, the INC.100 outperformed the leading averages

**73** THE INC. 100
**Ordinary Business** *BY TOM RICHMAN*
The products are mundane, the companies are anything but

**80** **Caddy Shack** *BY JOSEPH P. KAHN*
Companies from far and wide are lining up at Sewell Village Cadillac to learn a thing or two about bringing customers back for more

**92** **"Stop the Treadmill, I Want to Get Off"** *BY PAUL B. BROWN*
Lurching from crisis to crisis, growing faster than they could handle, Wes and Nancy Creel's company was in trouble. So were they

**104** **Graduation Day** *BY GERALD LANSON*
Joshua Smith built the fastest-growing black-owned business in America. But can Maxima survive without the government program that made success possible?


## COLUMNS


**14** **Required Reading:** Every Worker an Owner? *BY JOHN CASE*
Several new books explore the world of ESOPs

**19** **Start-ups:** Starting Over. *BY PAUL B. BROWN*
He's founded nine companies, he's rich, and he's ready to do it again

**22** **The New Economy:** No Respect. *BY DAVID L. BIRCH*
If you think the much-chronicled rise of the service sector signals lower wages, fewer exports, and an economy that can't grow, think again

**141** **Financial Tactics:** The Trouble with S Corporations. *BY DOUGLAS H. FORDE*
In the mad rush to switch to S-corporation status, a lot of company owners overlooked the pitfalls. Fortunately, it's not too late to switch back

**145** **The Law:** Dealing with Sexual Harassment. *BY MARISA MANLEY*
It's up to you to know what's going on—and to act quickly on complaints

**149** **Capital:** Lender of Last Resort. *BY ROBERT A. MAMIS*
If your loan is too risky for a bank, an asset-based lender may be willing to provide you with the cash you need—but it won't come cheap

**155** **Selling:** Going to the Top. *BY JACK FALVEY*
Your salespeople may close more deals at the bottom if they start higher up

**158** **Executive Forum:** Why I Went Solo. *BY JONATHAN S. HOLMAN*
The compromises and compensations of a one-man company


## DEPARTMENTS


**7** **Letters:** Union threats and start-up fever

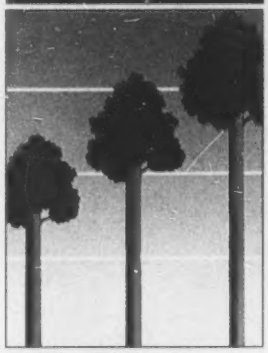
**10** **Insider:** An Entrepreneur's B-School; Child Inventors

**28** **Face-to-Face:** Banking Guru Alex Sheshunoff

**138** **Hands On:** A Manager's Notebook

**168** **Investing in Growth Companies/Street Talk**


## INC. COVER STORY



**48 The INC. 100**
1987's fastest-growing small public companies

**104 Graduation Day**
Is there life after a federal set-aside program?

**92 Planning**
Creel Morrell's founders get off the treadmill

COVER ILLUSTRATION
by
Min Jae Hong

**COPYRIGHT © 1987 BY INC. PUBLISHING CORPORATION** All rights reserved. Editorial and executive offices at 38 Commercial Wharf, Boston, MA 02110. INC. (ISSN 0162-8968) is published monthly by Inc. Publishing Corporation, 38 Commercial Wharf, Boston, MA 02110. Subscription rate for U.S. and Possessions, 12 issues $24. All subscription correspondence should be addressed to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Please allow at least six weeks for change of address. Include your old address as well as new, and enclose if possible an address label from a recent issue. Second class postage paid at Boston, MA, and additional mailing offices. Postage paid at Mississauga, Ontario. POSTMASTER: Send address changes to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Material in this publication must not be stored or reproduced in any form without permission. Requests for permission should be directed to Permissions Coordinator, INC., 38 Commercial Wharf, Boston, MA 02110. Inc. is a registered trademark of Inc. Publishing Corporation.

# 1987

# THE INC. 100

## AMERICA'S FASTEST-GROWING SMALL PUBLIC COMPANIES

WE'RE AWAITING CONFIRMATION FROM THE observatory at Mount Palomar that all the planets and moons did indeed orbit around Wall Street last year. Certainly that's where the economic action seemed to be. A wave of mergers and acquisitions. More leveraged buyouts, financed with ever-junkier bonds. Massive sell-offs of money-losing divisions. Multibillion-dollar buybacks of sagging company shares. And a spreading insider-trading scandal.

But the real story of economic performance—the tough work of producing goods and services, of building companies and creating jobs—occurred far from lower Manhattan. The enterprises on this year's INC. 100 list of the fastest-growing small public companies were expanding not merely by reshuffling their assets, and in that fact lies the continuing strength of the American economy. If hundreds of older factories closed down last year, for example, how did the United States generate millions of new jobs? Look at Fuddruckers (#85), a restaurant operator and franchisor, whose payroll jumped from 92 in 1982 to 3,050 in 1986. Or Apollo Computer (#62), which added more than 3,000 employees over the same period. The average INC. 100 company payroll zoomed from 46 employees in 1982 to 786 in 1986. And at no loss of productivity, either—sales per employee nearly doubled during that period.

The companies on this year's list illustrate a simple point: giants often flounder when markets change because they fail to see the new opportunities. Is Sears, Roebuck & Co. stagnating? The off-price retail market served by Ross Stores (#58) and Consolidated Stores (#80) isn't; neither is the home shopping business pioneered by Home Shopping Network (#10). Is Time Inc. having trouble? There's little trouble at the 13 fast-growing communications companies on this year's list, some of which compete in the hot satellite broadcasting market. Is AT&T floundering in the new era of deregulation? Seven young companies on the list are profiting from the same deregulation by providing a wide array of new telecommunications services.

The INC. 100 reflects broad economic trends. For the first time in the nine years that we have published the list, for example, fewer than half the companies on it manufacture a product—only 45, down from 55 last year. The difference, of course, is made up by a surge in the service sector, up to 37 companies from 26 last year. It's no surprise that representation from the energy and mining sector has caved in, too. Only 3 companies—all independent power producers whose market was assured by the Public Utility Regulatory Policies Act of 1978—grew fast enough to make the list, as compared with 6 last year. Back in 1983, the last glorious hours in the oil industry's heyday, 17 companies were on the list.

Some things don't change. As in the past, computer and software companies (30) and health-care providers (16) head the INC. 100. California is once again the state leader, claiming 28 of the 100 fastest-growing small public companies; in fact, California, New York, and Massachusetts together are home to nearly half of the companies on the list.

You don't have to be a computer company from Silicon Valley to make the list, though. Suppose you sell mobile homes in Winston-Salem, N.C., or make pizza toppings in Hutchinson, Kans. How do you grow fast enough to grab a spot on the 100 in a business that seemingly anyone could enter, in a place that is Anywhere Down the Street, U.S.A.? Senior writer Tom Richman explores the fundamental wellsprings of growth in "Ordinary Business" (page 73).

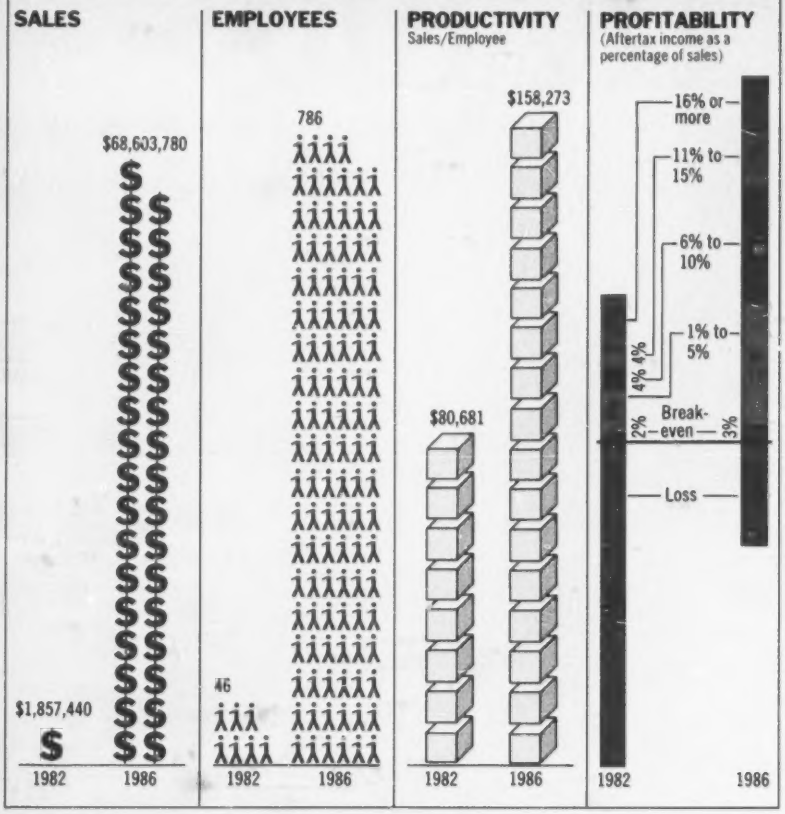
Growth had a special meaning for investors in the INC. 100 stocks. As senior writer Robert A. Mamis explores in "From Riches to Rags . . . and Back" (page 66), the portfolio of INC. 100 stocks rose 36% in a year, outperforming the major market indices. But investors didn't reward hot sales growth alone; if solid earnings didn't accompany those sales dollars, investors were apt to dump the stock.

Strategy and personality have a lot to do with growth, of course. In "The INC. 100 Portfolio" (page 58), associate editor Joshua Hyatt introduces us to the faces behind the company names. What company brought Oprah Winfrey national, and how did the popular TV talk-show hostess return the favor by helping to keep it on the INC. 100 for a second year? How did one founder's strategy bring his company $100 million in losses last year on $178 million in sales? And what chief executive officer's plane was stolen for a drug run?

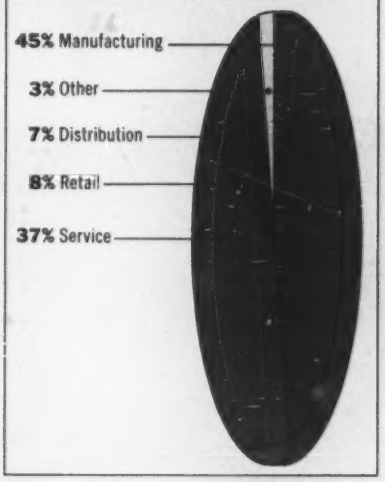
It's all a million miles from the deals and scandals on Wall Street. But it's also a lot more fun. —*The Editors*

# THE INC. 100 AT A GLANCE

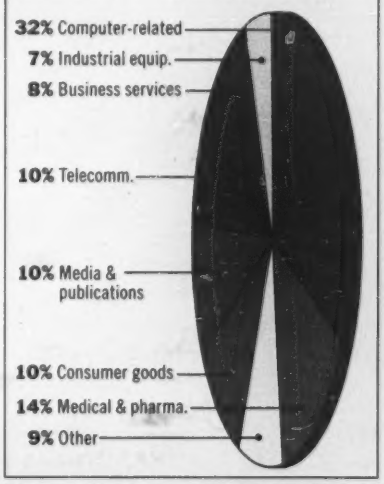
## HISTORY OF GROWTH: THE AVERAGE INC. 100 COMPANY



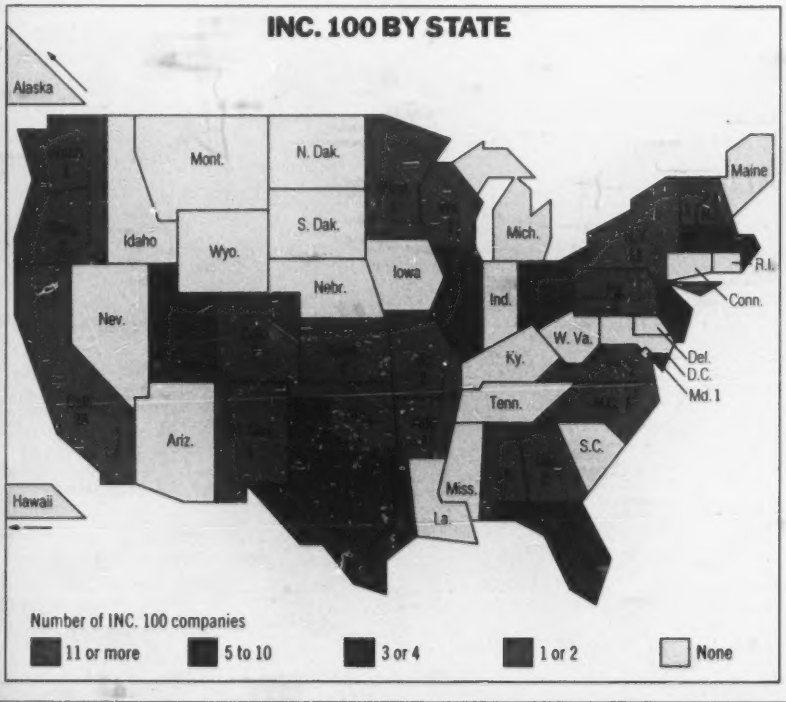

## INC. 100 BY SECTOR



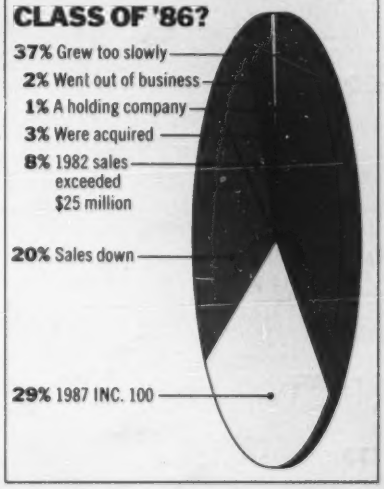

## INC. 100 BY INDUSTRY




## INC. 100 BY STATE




## WHAT HAPPENED TO THE CLASS OF '86?


37% Grew too slowly
2% Went out of business
1% A holding company
3% Were acquired
8% 1982 sales exceeded $25 million
20% Sales down
29% 1987 INC. 100

NIGEL HOLMES

# THE 100

| Company (1986 Rank) Business Description | Sales Growth (1982–86) Percent Increase | Sales Growth (1982–86) Compound Annual Rate | Sales ($000) 1986 | Sales ($000) 1982 | Net Income ($000) 1986 | Net Income ($000) 1982 | Shareholder Equity ($000) 1986 | No. of Employees 1986 | No. of Employees 1982 | Year Founded |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. **CATALYST ENERGY DEVELOPMENT** New York, NY<br>Independent power producer | 212,338% | 579% | $227,309 | $107 | $6,276 | $12 | $158,400 | 500 | 3 | 1982 |
| 2. **LOTUS DEVELOPMENT** Cambridge, MA<br>Publ. software | 162,466 | 535 | 282,864 | 174 | 48,300 | (1,145) | 114,500 | 1,400 | 16 | 1982 |
| 3. **WYSE TECHNOLOGY** San Jose, CA<br>Mfrs. video display terminals | 152,556 | 525 | 166,395 | 109 | 12,592 | (435) | 72,078 | 725 | 40 | 1981 |
| 4. **AMERICAN NETWORK** Portland, OR<br>Long-distance telephone svc. | 56,535 | 388 | 94,014[C] | 166 | 5,200[C] | (536) | 20,000[C] | 695 | 5 | 1982 |
| 5. **NATIONAL HEALTHCARE** Dothan, AL<br>Rural health-care svcs. | 56,088 | 387 | 115,748 | 206 | 3,122 | (22) | 55,272 | 3,500 | 20 | 1981 |
| 6. **AST RESEARCH** Irvine, CA<br>Supplies IBM-enhancement prods. | 43,520 | 357 | 172,299 | 395 | 27,177 | (37) | 86,586 | 985 | 34 | 1980 |
| 7. **BONNEVILLE PACIFIC** Salt Lake City, UT<br>Dvlps. power facilities | 23,905 | 294 | 32,167 | 134 | 2,460 | (66) | 3,657 | 30 | 9 | 1980 |
| 8. **PRICE COMMUNICATIONS** New York, NY<br>Operates radio & TV stations | 18,782 | 271 | 96,675 | 512 | (24,594) | (242) | (13,473) | 850 | 34 | 1979 |
| 9. **LAM RESEARCH** Fremont, CA<br>Mfrs. silicon-chip etching machines | 18,031 | 267 | 34,449 | 190 | 1,998 | (1,681) | 42,494 | 323 | 40 | 1980 |
| 10. **HOME SHOPPING NETWORK** Clearwater, FL<br>Televised specialty retailer | 17,735 | 265 | 160,159 | 898 | 17,049 | (220) | 47,476 | 4,200 | 150 | 1982 |
| 11. **AMERICAN CITY BUSINESS JOURNALS** Kansas City, MO<br>Publ. regional bus. journals | 17,663 | 265 | 27,000[C] | 152 | (7,300)[C] | (192) | 11,300[9] | 1,200 | 25 | 1982 |
| 12. **NORTHEASTERN MORTGAGE** Boston, MA<br>Mortgage banking | 16,666 | 260 | 21,460 | 128 | 3,500 | 33 | 14,805 | 310 | 3 | 1982 |
| 13. **ADVANCED TELECOMMUNICATIONS** Atlanta, GA<br>Long-distance telephone svc. | 16,250 | 258 | 45,616 | 279 | 3,485 | (30) | 14,392 | 450 | 10 | 1982 |
| 14. **CADE INDUSTRIES** (18) Marinette, WI<br>Mfrs. aerospace component parts | 13,302 | 240 | 58,300[C] | 435 | 3,690 | (80) | 11,716 | 1,200 | 50 | 1980 |
| 15. **STERLING SOFTWARE** (30) Dallas, TX<br>Software svcs. | 10,365 | 220 | 233,793 | 2,234 | 3,780 | 630 | 74,525 | 2,500 | 150 | 1981 |
| 16. **IOMEGA** (5) Roy, UT<br>Mfrs. & mkts. disk drives | 10,054 | 217 | 125,906[C] | 1,240 | 6,373[C] | (6,063) | 57,392[C] | 1,200 | 111 | 1980 |
| 17. **MENTOR GRAPHICS** Beaverton, OR<br>Mfrs. & mkts. computer-aided eng. prods. | 9,955 | 217 | 173,545 | 1,726 | 11,000 | (1,934) | 155,231 | 900 | 100 | 1981 |
| 18. **WESTWORLD COMMUNITY HEALTHCARE** Lake Forest, CA<br>Rural health-care svcs. | 9,805 | 215 | 178,000[C] | 1,797 | (100,000)[C] | 6 | (71,000)[C] | 3,500 | 1 | 1982 |
| 19. **SAHLEN & ASSOCIATES** Atlanta, GA<br>Private investigation svcs. | 7,899 | 199 | 8,079 | 101 | 651 | (112) | 2,862 | 250 | 25 | 1981 |
| 20. **SHANLEY OIL** (11) Dallas, TX<br>Oil & gas dvlpmt. | 7,791 | 198 | 26,750 | 339 | (1,422)[9] | (1,873) | 11,966[9] | 500 | 8 | 1980 |
| 21. **ENTRE COMPUTER CENTERS** Vienna, VA<br>Bus. computer franchise | 7,651 | 197 | 66,893 | 863 | (8,007) | (739) | 21,018 | 432 | 38 | 1981 |
| 22. **EXPEDITORS INT'L** (7) Seattle, WA<br>Int'l air-freight forwarding | 7,454 | 195 | 108,773 | 1,440 | 4,061 | 343 | 19,643 | 575 | 45 | 1979 |
| 23. **ENVIRODYNE** Chicago, IL<br>Mfrs. disposable cutlery | 6,906 | 189 | 316,620 | 4,519 | 17,347 | 489 | 80,000 | 4,300 | 75 | 1970 |
| 24. **SYMBOLICS** Cambridge, MA<br>Mfrs. & mkts. computer systs. | 6,242 | 182 | 114,212 | 1,801 | 10,729 | (3,904) | 87,256 | 905 | 107 | 1980 |
| 25. **KINGS ROAD ENTERTAINMENT** Los Angeles, CA<br>Produces motion pictures | 5,387 | 172 | 16,736 | 305 | (4,807) | (22) | 21,579 | 26 | 4 | 1982 |

C: company estimate; 9: nine-month figure

CHARTS TYPESET BY B.F.E. GRAPHICS

| Company (1986 Rank) Business Description | Sales Growth (1982-86) Percent Increase | Sales Growth (1982-86) Compound Annual Rate | Sales ($000) 1986 | Sales ($000) 1982 | Net Income ($000) 1986 | Net Income ($000) 1982 | Shareholder Equity ($000) 1986 | No. of Employees 1986 | No. of Employees 1982 | Year Founded |
|---|---|---|---|---|---|---|---|---|---|---|
| **26. BALLARD MEDICAL PRODUCTS** Midvale, UT<br>Mfrs. disposable medical prods. | 4,739% | 164% | $5,516 | $114 | $123 | ($426) | $3,690 | 153 | 20 | 1978 |
| **27. INSITUFORM SOUTHEAST** Jacksonville, FL<br>Constr. & repair of sewers & pipelines | 4,673 | 163 | 7,828 | 164 | 790 | (234) | 7,775 | 79 | 10 | 1981 |
| **28. COMPUTER MEMORIES** Chatsworth, CA<br>Mfrs. & mkts. disk drives | 4,653 | 163 | 116,201 | 2,445 | (18,050) | (369) | 29,991 | 99 | 42 | 1979 |
| **29. WALKER TELECOMMUNICATIONS** (17) Hauppauge, NY<br>Distr. electronic key telephone systs. | 4,386 | 159 | 37,500[C] | 836 | 400[C] | 152 | 17,100[C] | 100 | 3 | 1978 |
| **30. SYMBION** (43) Salt Lake City, UT<br>Mfrs. artificial organs | 4,305 | 158 | 6,696 | 152 | (1,465) | (489) | 14,438 | 62 | 9 | 1976 |
| **31. BIO-LOGIC SYSTEMS** Northbrook, IL<br>Mfrs. computer-based electro-diagnostic systs. | 4,073 | 154 | 5,008 | 120 | 486 | (174) | 4,060 | 58 | 6 | 1980 |
| **32. NEWMAN COMMUNICATIONS** Albuquerque, NM<br>Produces & distr. audiocassettes | 3,925 | 152 | 7,930 | 197 | 365 | (47) | 2,155 | 60 | 4 | 1981 |
| **33. CALIFORNIA BIOTECHNOLOGY** Mountain View, CA<br>Dvlps. health-care prods. | 3,885 | 151 | 16,818 | 422 | (18,968) | (250) | 88,647 | 156 | 12 | 1982 |
| **34. LSI LOGIC** Milpitas, CA<br>Designs & mfrs. integrated circuits | 3,807 | 150 | 194,335 | 4,974 | 3,855 | (3,740) | 250,989 | 1,800 | 114 | 1981 |
| **35. KING WORLD PRODUCTIONS** (64) Summit, NJ<br>Distr. & syndicates TV programs | 3,662 | 148 | 145,718 | 3,873 | 19,846 | 323 | 43,830 | 93 | 15 | 1964 |
| **36. MBI BUSINESS CENTERS** (70) Rockville, MD<br>Sells microcomputer systs. & prods. | 3,633 | 147 | 117,932 | 3,159 | 2,892 | (40) | 33,644 | 550 | 75 | 1974 |
| **37. MINISCRIBE** Longmont, CO<br>Produces & mkts. computer storage devices | 3,566 | 146 | 184,861 | 5,043 | 22,711 | (3,247) | 66,314 | 2,700 | 50 | 1980 |
| **38. 3COM** (13) Santa Clara, CA<br>Mfrs. local area network systs. | 3,435 | 144 | 63,992 | 1,810 | 6,681 | (690) | 32,710 | 372 | 32 | 1979 |
| **39. DOSKOCIL** Hutchinson, KS<br>Procs. precooked meat & sausages | 3,350 | 142 | 223,918 | 6,491 | 4,656 | 1,124 | 65,856 | 900 | 100 | 1961 |
| **40. CITIPOSTAL** New York, NY<br>Courier | 3,252 | 141 | 6,737 | 201 | 703 | (28) | 2,375 | 75 | 12 | 1969 |
| **41. ASHTON-TATE** (4) Torrance, CA<br>Designs & mfrs. software prods. | 3,230 | 140 | 121,571 | 3,651 | 16,567 | (175) | 53,528 | 1,100 | 160 | 1980 |
| **42. INFORMIX** Menlo Park, CA<br>Designs & mkts. database mgmt. software prods. | 3,208 | 140 | 21,108 | 638 | 2,463 | 141 | 15,679 | 214 | 19 | 1980 |
| **43. PSE** Houston, TX<br>Operates waste heat-recovery plants | 3,201 | 140 | 100,000[C] | 3,029 | (1,568)[9] | (159) | 28,181[9] | 200 | 40 | 1969 |
| **44. AMERICAN BUSINESSPHONES** (6) Irvine, CA<br>Distr. & svcs. business phones | 3,187 | 139 | 23,897 | 727 | 557 | 60 | 6,165 | 240 | 13 | 1980 |
| **45. SARATOGA STANDARDBREDS** (32) N. Salem, NY<br>Raises standardbred & harness horses | 3,145 | 139 | 6,100[C] | 188 | 254[9] | (158) | 6,359[C] | 68 | 10 | 1981 |
| **46. BRENTWOOD INSTRUMENTS** (40) Torrance, CA<br>Mkts. & sells medical testing equip. | 3,017 | 136 | 11,127 | 357 | 603 | 2 | 5,677 | 75 | 4 | 1979 |
| **47. TEKELEC** Calabasas, CA<br>Mfrs. & mkts. digital telephone test equip. | 2,967 | 135 | 13,987 | 456 | 1,384 | (88) | 13,865 | 140 | 12 | 1980 |
| **48. VITRONICS** (44) Newmarket, NH<br>Mfrs. infrared solder reflow systs. | 2,935 | 134 | 7,162 | 236 | 302 | (105) | 4,128 | 63 | 7 | 1981 |
| **49. FONAR** (82) Melville, NY<br>Mfrs. medical scanning equip. | 2,815 | 132 | 36,668 | 1,258 | 2,620 | (2,113) | 139 | 294 | 74 | 1978 |
| **50. APPLIED BIOSYSTEMS** Foster City, CA<br>Mfrs. & mkts. automated instruments | 2,638 | 129 | 51,748 | 1,890 | 10,367 | (979) | 81,240 | 465 | 34 | 1981 |

C: company estimate; 9: nine-month figure

| Company, 1986 Rank, Business Description | Sales Growth (1982–86) Percent Increase | Sales Growth (1982–86) Compound Annual Rate | Sales ($000) 1986 | Sales ($000) 1982 | Net Income ($000) 1986 | Net Income ($000) 1982 | Shareholder Equity ($000) 1986 | No. of Employees 1986 | No. of Employees 1982 | Year Founded |
|---|---|---|---|---|---|---|---|---|---|---|
| **51. TEKNOWLEDGE** Palo Alto, CA<br>Dvlps. & mkts. software prods. | 2,553% | 127% | $14,563 | $549 | $669 | ($412) | $47,494 | 175 | 40 | 1981 |
| **52. TCBY ENTERPRISES** Little Rock, AR<br>Frozen yogurt franchisor | 2,487 | 126 | 33,293 | 1,287 | 8,031 | 317 | 36,697 | 214 | 20 | 1981 |
| **53. TELSTAR** Los Angeles, CA<br>Distr. satellite-TV shows | 2,431 | 124 | 10,784 | 426 | 1,400 | (2,330) | 6,900 | 400 | 15 | 1981 |
| **54. CERTIFIED COLLATERAL** (31) Chicago, IL<br>Mgmt. info. svcs. to auto insurance cos. | 2,365 | 123 | 13,779 | 559 | 2,206 | (563) | 16,148 | 284 | 18 | 1980 |
| **55. BEAUTICONTROL COSMETICS** Carrollton, TX<br>Produces & sells cosmetics | 2,358 | 123 | 23,035 | 937 | 3,328 | (287) | 13,815 | 156 | 12 | 1981 |
| **56. ATI MEDICAL** Glendale, CA<br>Rents & sells medical equip. | 2,334 | 122 | 6,889 | 283 | 654 | 66 | 4,275 | 110 | 6 | 1982 |
| **57. UNITED HEALTHCARE** (49) Minnetonka, MN<br>Dvlps. & mkts. health-care systs. | 2,276 | 121 | 216,246 | 9,103 | 7,241 | 299 | 54,454 | 2,300 | 400 | 1974 |
| **58. ROSS STORES** Newark, CA<br>Operates off-price retail stores | 2,202 | 119 | 375,945 | 16,330 | 7,055 | (200) | 126,346 | 5,000 | 320 | 1982 |
| **59. STRATUS COMPUTER** Marlborough, MA<br>Mfrs. & mkts. computers | 2,170 | 118 | 124,559 | 5,486 | 13,519 | (1,196) | 75,699 | 1,069 | 111 | 1980 |
| **60. ORACLE** Belmont, CA<br>Dvlps. & mkts. software prods. | 2,140 | 118 | 55,383 | 2,473 | 5,896 | 273 | 28,651 | 800 | 50 | 1967 |
| **61. MMI MEDICAL** Pomona, CA<br>Diversified medical svcs. | 2,130 | 117 | 22,192 | 995 | 1,155 | 51 | 15,456 | 200 | 10 | 1981 |
| **62. APOLLO COMPUTER** (14) Chelmsford, MA<br>Mfrs. computer systs. | 2,064 | 116 | 391,685 | 18,099 | 9,331 | 307 | 189,917 | 3,500 | 400 | 1980 |
| **63. DATAVISION** Deerfield Beach, FL<br>Mfrs. multipurpose monitoring systs. | 2,030 | 115 | 5,922 | 278 | (958) | (2,036) | 8,681 | 99 | 37 | 1978 |
| **64. PEOPLE RIDESHARING SYSTEMS** Newark, NJ<br>Vanpool management | 2,009 | 114 | 10,206 | 484 | 57 | (24) | 2,568 | 61 | 4 | 1981 |
| **65. NEW ENGLAND CRITICAL CARE** Marlborough, MA<br>Provides in-home infusion therapies | 1,965 | 113 | 21,086 | 1,021 | 3,038 | 8 | 18,049 | 191 | 8 | 1981 |
| **66. BEN & JERRY'S HOMEMADE** (74) Waterbury, VT<br>Mfrs. & sells ice cream | 1,938 | 112 | 19,729 | 968 | 853[9] | (56) | 7,544[9] | 160 | 25 | 1978 |
| **67. FIBRONICS INT'L** (28) Hyannis, MA<br>Mfrs. fiber-optic comm. systs. | 1,931 | 112 | 30,500[C] | 1,502 | (1,000)[C] | 40 | 21,000[C] | 400 | 75 | 1977 |
| **68. EMC** Natick, MA<br>Mfrs. board-level computer prods. | 1,928 | 112 | 66,588 | 3,283 | 18,630 | 522 | 67,214 | 392 | 6 | 1979 |
| **69. INNOVATIVE SOFTWARE** Lenexa, KS<br>Dvlps. & mkts. software | 1,922 | 112 | 13,464 | 666 | 2,692 | 106 | 10,646 | 150 | 8 | 1979 |
| **70. FOUNTAIN OIL & GAS** Denver, CO<br>Oil & gas | 1,898 | 111 | 3,837[C] | 192 | 260[9] | (100) | 1,100 | 15 | 3 | 1982 |
| **71. GIGA-TRONICS** Pleasant Hill, CA<br>Mfrs. measurement instruments | 1,885 | 111 | 19,691 | 992 | 3,843 | 1 | 18,498 | 120 | 15 | 1980 |
| **72. JACOR COMMUNICATIONS** (73) Cincinnati, OH<br>Operates radio stations | 1,882 | 111 | 23,566 | 1,189 | 2 | (609) | 25,557 | 297 | 45 | 1979 |
| **73. V BAND SYSTEMS** (22) Yonkers, NY<br>Mfrs. telecomm. terminal equip. | 1,871 | 111 | 36,832 | 1,869 | 5,159 | 131 | 25,777 | 220 | 14 | 1977 |
| **74. PATIENT TECHNOLOGY** (41) Hauppauge, NY<br>Mfrs. health-care prods. | 1,774 | 108 | 30,000[C] | 1,601 | (850)[9] | (26) | 11,000[C] | 302 | 7 | 1981 |
| **75. FINANCIAL NEWS NETWORK** Santa Monica, CA<br>Nat'l cable-TV network | 1,759 | 108 | 13,272 | 714 | 1,284 | (4,031) | 5,649 | 190 | 85 | 1981 |

C: company estimate; 9: nine-month figure

| Company (1986 Rank) Business Description | Sales Growth (1982–86) Percent Increase | Sales Growth (1982–86) Compound Annual Rate | Sales ($000) 1986 | Sales ($000) 1982 | Net Income ($000) 1986 | Net Income ($000) 1982 | Shareholder Equity ($000) 1986 | No. of Employees 1986 | No. of Employees 1982 | Year Founded |
|---|---|---|---|---|---|---|---|---|---|---|
| **76. STEP-SAVER DATA SYSTEMS** Bala Cynwyd, PA<br>Mkts. & supports computerized bus. systs. | 1,707% | 106% | $6,018 | $333 | $436 | $93 | $3,624 | 95 | 10 | 1981 |
| **77. LEXICON** Fort Lauderdale, FL<br>Supplier of on-line terminal prods. | 1,705 | 106 | 16,982 | 941 | (2,673) | (1,585) | 9,359 | 275 | 20 | 1976 |
| **78. TECH DATA** Clearwater, FL<br>Distr. microcomputers | 1,696 | 106 | 37,703 | 2,099 | 904 | (576) | 1,748 | 80 | 12 | 1973 |
| **79. CHRONAR** Princeton, NJ<br>Mfrs. photovoltaic panels | 1,689 | 106 | 13,111 | 733 | (1,263)[9] | (1,598) | 11,868[9] | 175 | 37 | 1975 |
| **80. CONSOLIDATED STORES** (84) Columbus, OH<br>Operates closeout retail stores | 1,678 | 105 | 181,101 | 10,186 | 11,957 | 1,372 | 47,628 | 12,000 | 150 | 1967 |
| **81. AMERICAN COMM. & TV** Gainesville, FL<br>Satellite broadcasting | 1,665 | 105 | 3,600[C] | 204 | (437)[9] | (222) | 1,824[C] | 106 | 15 | 1980 |
| **82. CABLE ADVERTISING SYSTEMS** Austin, TX<br>Provides TV advertisements | 1,654 | 105 | 2,000[C] | 114 | (2,367) | (118) | 2,908 | 100 | 6 | 1982 |
| **83. AUTOSPA** Woodside, NY<br>Auto maintenance franchisor | 1,644 | 104 | 3,140 | 180 | 41 | (150) | 1,719 | 50 | 6 | 1980 |
| **84. RADYNE** Bohemia, NY<br>Data & satellite comm. | 1,620 | 104 | 1,720 | 100 | (1,067) | 9 | (111) | 55 | 25 | 1980 |
| **85. FUDDRUCKERS** (25) San Antonio, TX<br>Operates & franchises restaurants | 1,597 | 103 | 67,000[C] | 3,948 | (4,000)[C] | 195 | 7,125[9] | 3,050 | 92 | 1979 |
| **86. SATELLITE MUSIC NETWORK** Dallas, TX<br>Transmits satellite radio programming | 1,590 | 103 | 15,750[C] | 932 | 660[C] | (2,776) | 7,852[9] | 140 | 40 | 1981 |
| **87. CALGENE** Davis, CA<br>Plant biotechnology | 1,559 | 102 | 8,128 | 490 | (907) | (1,089) | 37,934 | 96 | 42 | 1980 |
| **88. INT'L THOROUGHBRED BREEDERS** E. Windsor, NJ<br>Owns & operates racetracks | 1,543 | 101 | 87,335 | 5,315 | (33,993) | (1,484) | 216,013 | 525 | 10 | 1980 |
| **89. MANUFACTURED HOMES** (99) Winston-Salem, NC<br>Sells manufactured homes | 1,505 | 100 | 120,000[C] | 7,478 | 3,381[9] | (60) | 15,601[9] | 931 | 60 | 1975 |
| **90. XICOR** Milpitas, CA<br>Mfrs. semiconductors | 1,472 | 99 | 44,279 | 2,816 | (3,812) | (10,839) | 27,296 | 520 | 50 | 1978 |
| **91. DURAMED PHARMACEUTICALS** Cincinnati, OH<br>Mfrs. & sells generic drugs | 1,441 | 98 | 15,429 | 1,001 | 1,818 | (246) | 4,736 | 200 | 2 | 1982 |
| **92. PRE-PAID LEGAL SERVICES** Ada, OK<br>Sells prepaid legal contracts | 1,435 | 98 | 40,000[C] | 2,606 | 2,292[C] | 89 | 10,916[9] | 180 | 20 | 1972 |
| **93. VIDEO SCIENCE TECHNOLOGY** Dallas, TX<br>Dvlps. video X-ray imaging systs. | 1,400 | 97 | 6,435 | 429 | 17 | 17 | 2,361 | 175 | 20 | 1981 |
| **94. VM SOFTWARE** Reston, VA<br>Dvlps. & mkts. software prods. | 1,374 | 96 | 27,027 | 1,833 | 4,928 | 375 | 20,674 | 213 | 20 | 1981 |
| **95. MEMTEK** Billerica, MA<br>Mfrs. & mkts. ultrafiltration systs. | 1,333 | 95 | 4,627 | 323 | (648) | (424) | 1,530 | 75 | 15 | 1979 |
| **96. KAYPRO** Solana Beach, CA<br>Dvlps. & mkts. personal computers | 1,329 | 94 | 77,925 | 5,452 | 39 | (468) | 24,214 | 576 | 80 | 1953 |
| **97. CIRCADIAN** (59) San Jose, CA<br>Mfrs. diagnostic medical instruments | 1,314 | 94 | 16,018 | 1,274 | 2,081 | (822) | 12,508 | 177 | 30 | 1979 |
| **98. DEST** (67) Milpitas, CA<br>Mfrs. electronic document readers | 1,307 | 94 | 18,590 | 1,321 | 1,109 | (3,118) | 19,001 | 160 | 45 | 1970 |
| **99. CERNER** Kansas City, MO<br>Designs & mkts. information systs. | 1,303 | 94 | 17,356 | 1,237 | 2,291 | (107) | 16,349 | 170 | 17 | 1980 |
| **100. CODENOLL TECHNOLOGY** Yonkers, NY<br>Mfrs. semiconductor fiber optics | 1,289 | 93 | 6,063 | 432 | (1,984)[9] | (2,700) | 6,462[9] | 76 | 51 | 1980 |

C: company estimate; 9: nine-month figure

# THE INC. 100 PORTFOLIO

**The numbers don't tell it all. Behind every fast-growing company is a winning strategy and the person who devised it**

*BY JOSHUA HYATT*

## TUNED IN

**At King World, Oprah is Queen**

Most investors hunt for undervalued assets on Wall Street. But the King brothers go no further than their television sets. "Oprah is unbelievable, she's a phenomenon," says Michael King, who is ecstatic about his latest find.

King is chief executive officer of King World Productions Inc. (#35), the business that distributes Oprah Winfrey's popular daytime talk show. Winfrey's show may be responsible for as much as 15% of the company's revenues next year. "We've got a superstar," says King.

*TV talker Oprah Winfrey*
**The Kings gambled: Had America had its fill of Donahue?**

A superstar is exactly what King World needed two years ago, when it launched its effort to unseat Phil Donahue in the ratings. The company picked a tough target: Donahue had resided near the top of the charts for a dozen years. But the Kings—Michael's brother, Roger, is chairman—noticed that some local morning shows were beating Donahue in their own markets.

Playing tapes of potential contenders, the Kings dozed through a boring gabfest. Most of the shows consisted of what the industry calls "infotainment"—slick programs mixing news, how-to segments, and celebrity hype. Winfrey, whose show is based in Chicago, stood out. "There's something about her that comes through the screen," says King. "She can make you laugh during serious subjects, and she can also do shows on fashion and soap-opera hunks." Winfrey's show, which made its national debut last September, dominates Donahue in most markets where they compete.

Not that King World's other shows are having trouble pulling their weight. Before Winfrey, the company unearthed two other gems, "Wheel of Fortune" and "Jeopardy!" The pair of game shows are now the two highest-rated syndicated shows in television history. Thanks to them, King World's sales hit almost $146 million last year. "That one company could develop three major shows in three years defies the laws of chance," says Lee Isgur, entertainment analyst at Paine Webber. "No other company has even come close."

## THE FIXER

**Mark Connally: Follow the Son**

Over the years, former Texas governor John Connally has profited from investments in radio stations and real estate. These days, his most profitable asset is probably his son Mark.

The former U.S. Treasury secretary is finding that it's nice to have another businessman in the family. Mark, chairman and chief executive officer of Cable Advertising Systems (#82), says that growing up the son of a famous father "had its pluses and minuses." More minuses of late, we suspect, considering his father's heavy investments in Texas's overbuilt real estate market. "We've worked together for a long time," says the elder Connally. "To that extent, we are a team."

It seems to work like this: John's investments run into serious problems, and then son Mark comes in for the rescue attempt. It started in 1974, when 22-year-old Mark volunteered to run John's 10,000-acre ranch. Mark tossed away some old family practices for the sake of the bottom line. He improved the baling of hay and raised more profitable purebred cattle. After about three years, he says, "the ranch did not generate profits, but we had reduced its losses."

Next, Mark spent about two years rising from lending officer to president of The First City National Bank of Floresville (Tex.), a rural bank that was 10% owned by—you guessed it—John. Mark understood the market; he was making loans to ranchers who had problems just like he had experienced. During Mark's five-year reign as president, he moved it onto the growth track: deposits rose from $18 million to $36 million and profits doubled. Looking for a bigger challenge in 1984, Mark moved to a



PHOTOGRAPH: ARTHUR SHAY, CLICK/CHICAGO

*John (left) and Mark Connally*
**One spots trouble, the other tries to fix it.**

troubled real estate investment company where you-know-who was half owner. It was beyond his help, though. "When your market goes away, there is not much you can do," he says.

At Cable Advertising Systems, the previous chairman was—of course—his father. When Mark became CEO in 1986, the company was out of cash and lacking direction. Now it is focusing on selling advertising time on cable-television systems. Last year, it lost about $2 million on sales of around $2 million, but Mark expects to see profits by the end of this year.

What will he do then? Perhaps it's best to ask his father. "I don't have another venture in mind for him," says John Connally, who is 70.

## CURRENT EVENTS

### Energetic Entrepreneurs Find New Outlets

"When people hear the phrase 'independent power producer,' it conjures up an image of some guy with a windmill on his roof," says John Kuhns, president and chief executive officer of Catalyst Energy Development Corp. (#1). But Catalyst, a $227-million concern that is the fastest-growing small public company in America, calls itself just that.

For that matter, so do Bonneville Pacific Corp. (#7) and PSE Inc. (#43). All three companies are beneficiaries of the Public Utility Regulatory Policies Act of 1978, which brought entrepreneurs into the staid utility industry. Utilities are required to buy power from the independent producers, and must pay whatever it would have cost them to produce the power themselves. "Electricity rates have risen so rapidly that it created a huge opportunity," says Kuhns. "So along we came."

## MULTIPLE FRACTURES

### Westworld Community Healthcare: Critical Condition

Had Michael Dunn's doctors performed operations the way he did, few patients would have emerged alive from Westworld Community Healthcare Inc.'s hospitals. As it is, Dunn's strategy landed the company (#18) on its deathbed, with losses of approximately $100 million on sales of about $178 million last year.

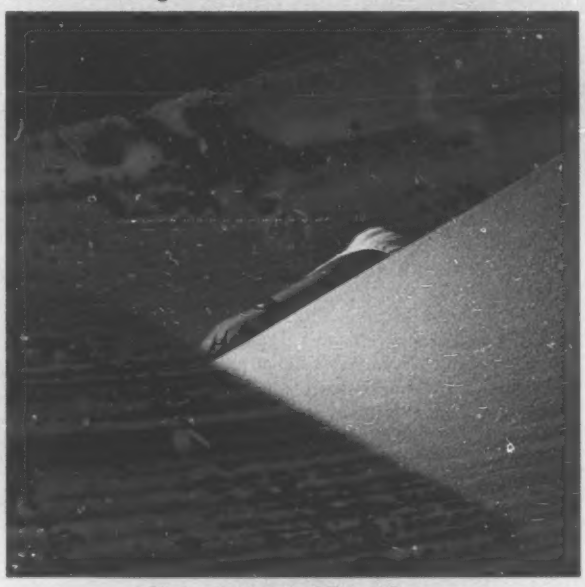
Dunn began acquiring rural hospitals in 1982, upgrading them with new personnel and modern equipment. Although Westworld's 38 hospitals became more expensive on a per-day basis, Dunn explained to patients that they would spend less time laid up.

Patients, though, felt they were being pushed out the door too quickly, and they voted to take their ailments elsewhere. In response, Dunn devised another marketing strategy: he would charge patients a standard fee based on their diagnosis, not on their length of stay. Medicare used the same tough billing system; by voluntarily using the system for *all* patients, Dunn figured that Westworld would be seen as a leader in the drive to hold down medical costs. As the empty beds filled up, profits would follow.

Dunn checked the billing idea with the home offices of about 40 big insurance companies, and "they had a very good reaction," he reports. But Westworld operates in small towns, where insurance offices demanded traditional, itemized bills. They refused to pay the bills that Westworld submitted. Consumers, who hated wrangling with their insurance companies, blamed Westworld.

On the verge of bankruptcy, Dunn sought help from a bank. The company eventually got $10 million, but the bank prescribed something to stop the bleeding: Dunn had to go. "I became the price for the bank's continuing to finance the company," he says.

His successor, Stephen Arterburn, has come up with a new marketing plan. The company divested more than half of its hospitals and some other assets late last year, taking a write-off that accounted for $71 million of the company's losses. Now Westworld's focus will be diversification into profitable specialty programs such as pain and alcoholism treatment. No doubt the company's stockholders could be among its first patients: Westworld's stock dropped almost 95% during last year's troubles.



*Westworld founder Michael Dunn*
**His prescription for marketing nearly killed the company.**

## NO HORSEPLAY

### Robert Brennan: Saddled With Legal Problems

Where Robert E. Brennan goes, two things follow closely behind: fast growth and a good lawyer.

Brennan, you may recall, founded First Jersey Securities Inc., a high-profile brokerage that specializes in over-the-counter stocks. Over 11 years, he built a $96-million company that attracted as much attention from the Securities and Exchange Commission as it did from investors. He resigned last year, scarred from continuous battles with federal officials, who investigated him for stock manipulation but never filed criminal charges.

Now, Brennan is back with International Thoroughbred Breeders Inc. (#88), a horse breeder and racetrack owner that he took public in 1981. But Brennan has brought his legal problems with him. A shareholder suit charges him with fraud and asks for $170 million. The lawsuit claims that the company, which lost about $34 million on sales of more than $87 million last year, withheld important information about its plans to rebuild a New Jersey racetrack. "He didn't give the stock buyers a fair shake," says Paul Wexler, the shareholders' lawyer. Neither Brennan nor his lawyer is talking.

PHOTOGRAPHS: TOP, JEFF BAKER/RIGHT, DAVID STRICK

## BIG DEALS

### Roy Speer: The Deal Maker Behind Home Shopping

Home Shopping Network Inc. (#10) took almost everybody by surprise last year when it turned out to be among the most successful public offerings of the past quarter century. By February 27, its stock had zoomed 1,000% above the May offering price. But Roy Speer, the billionaire who serves as chief executive officer, claims he wasn't surprised by investors' reaction or by the company's five-year compound annual growth rate of 265%. "I guess I'm just smart," he says.

*HSN's Roy Speer*
**"I'm just smart."**

Such bluntness is characteristic of the 54-year-old Florida developer and former criminal lawyer. Speer got the idea for a cable-television shopping network after a radio station he owned had no trouble selling can openers over the air.

Speer rarely talks about his past personal or business life. But in a recent interview, he pointed to some of his more unusual escapades.

☐ He founded a swanky, all-black nightclub in St. Petersburg, Fla., a deeply segregated city, about 30 years ago. "I had some very good friends who were black and wanted one," he explains. "So I built one for them." It was profitable, Speer claims, although it has since closed down.

☐ In the 1960s, he says he built retirement homes along Florida's coast. His company planned to build a $500-million community for 100,000 people. But the energy crisis brought hard times that forced him to liquidate the company, leaving major unfinished projects. "I didn't lose any money," he contends.

☐ He bought a 1,500-acre farm in Puerto Rico. After a few years of good harvests, he says, a hurricane destroyed it in the early 1970s. "After that, I made an agreement with God," notes Speer. "If he wouldn't send me any more hurricanes, I wouldn't grow any more vegetables."

☐ One of his planes was involved in a drug bust last year. According to Speer, drug dealers stole it; the plane was later recovered stuffed with marijuana. "They figured if they were going to fly, they might as well take the nicest plane," Speer reasons.

☐ He serves as a director or officer of about 25 Florida corporations, among them a beauty academy and a barbecue restaurant. Speer claims he can keep track of them all via his computer.

## LINE ITEMS

■ Dasan Potti, chief executive officer of Duramed Pharmaceuticals Inc. (#91), earned spending money during high school by working as a Hindu priest.

■ Though he doesn't practice any Eastern religion, Benjamin Zitron, president of AutoSpa Corp. (#83), goes on 7- to 10-day fasts at least once a year. "It gives you a unique feeling of independence," he says. "It's a very good exercise in discipline."

■ INC. CEOs pay a high price for running a fast-growth business. Half say that demands of their job force them to dramatically reduce the time they devote to their family.

■ *"Daddy, would you take me to the shareholders' meeting, plee-ease?"* Fourteen CEOs wanted to be businessmen when they were growing up.

■ New England Critical Care Inc. (#65), which provides in-home intravenous infusions, estimates that 5% of its roughly 900 patients are AIDS patients. It expects that ratio to rise to 20% by 1992.

■ Of some 600 directors who sit on INC. 100 boards, fewer than 20 are women.

■ Richard J. Egan, president and CEO of EMC Corp. (#68), developed the memory for the guidance computer for the Apollo space missions.

■ S. Mort Zimmerman, chairman and CEO of Video Science Technology Inc. (#93), holds one of the original U.S. patents on the technology of closed-circuit television.

■ And Dr. Raymond V. Damadian, chairman of FONAR Corp. (#49), invented the nuclear magnetic-resonance technology for medical imaging—a scanning technology that uses no X-rays. His first machine is on permanent display at the Smithsonian Institution.

■ One of the new ice-cream flavors this year at Ben & Jerry's Homemade Inc. (#66) is Cherry Garcia, named for Jerry Garcia, leader of the Grateful Dead.

■ Frank J. Feitz, who advised big companies on installing phone systems, wrote and published a book in 1980 called *The Bum Connection*, an exposé of the phone industry. At $79 per, he sold 990 out of 1,000 copies in three months. The book gave him the idea for starting American Businessphones Inc. (#44), which services *small* companies.

■ Four of the INC. 100 CEOs work for no salary.

■ The average equity held by the CEOs is 15%.

■ Daniel M. Reichard III started a limousine service while in college. Four years after graduation, he founded People Ridesharing Systems Inc. (#64), which transports people to work by van.

■ Last year, one-sixth of ATI Medical Inc.'s (#56) roughly $7 million in revenues came from renting medical equipment to such TV shows as "St. Elsewhere," "Dallas," and "Dynasty."

■ About one-third of Saratoga Standardbreds Inc.'s (#45) $6-million revenue this year came from stud fees for one very happy stallion, Niatross, who is mated 175 times a year.

■ Edward M. Esber Jr., CEO of Ashton-Tate (#41), once dressed up as General George S. Patton Jr. at a companywide quarterly meeting. He wanted to let his employees know that "It's still a war out there."

■ Seventy of the 100 CEOs are founders of their companies.

■ Long Odds Department: AutoSpa Corp. (#83) and CitiPostal Corp. (#40) shared the same New York City address for nearly two years. The two companies' CEOs had been friends since 1969, and one rented space to the other.

■ Only 19 companies on the list are more than 10 years old.

■ And almost half the companies went public during the two boom years for initial public offerings, 1983 and 1986.

■ Before starting Bonneville Pacific Corp. (#7), Raymond Hixson was president of Snowbird, the Utah ski resort.

■ President Jim Manzi owns less than 1% of Lotus Development Corp. (#2), but his shares were worth about $2 million on February 27.

■ At ATI Medical Inc. (#56), company policy forbids employees from writing memos to one another. The policy is in writing.

■ Diminutive actor Mickey Rooney may be an unlikely champion of fast growth. But he is the spokesman for TCBY Enterprises Inc., a frozen-yogurt franchisor (#52).

■ King World Productions Inc. (#35), syndicator of "Wheel of Fortune," has not spent a cent of the more than $7.5 million it raised in its December 1984 public offering.

■ Fibronics International Inc. (#67), which makes fiber-optic communications systems, is the only company to appear on the list for the fourth consecutive year.

■ Dale Ballard, CEO of Ballard Medical Products (#26), launched a stock ownership plan for employees in 1958. That was about 20 years before tax breaks made them popular.

■ Michael Brown and Mark Callegari formed their partnership in college when they founded Sound Energy, a portable disco service with sales of about $5,000 a year. Next, they launched Innovative Software Inc. (#69).

■ I. William Krause, CEO of 3Com Corp. (#38), was one of Hewlett-Packard Co.'s two original computer salesmen, hired in 1967.



PHOTOGRAPH: LAWRENCE BARNS

## DINGDONG

### BeautiControl: The Concept Rings a Bell

If you were Dick Heath's friend, what would you have told him?

You might have suggested that he was living in the Dark Ages, that the world had passed him by, that his idea for a new company would have been successful in 1950. But . . .

No "buts" for Heath. In 1981, he was sure his company, BeautiControl Cosmetics Inc. (#55), could prosper by selling cosmetics in consumers' homes. Yes, he knew that about 70% of women between the ages of 18 and 54 had exchanged ironing boards for boardrooms. And he could see that venerable Avon Products Inc., having ignored that shift, was about to face major problems both in recruiting new salespeople and in finding customers home during the day. But Heath was convinced that he could capitalize on that changing market.

Such direct sellers as Avon and Mary Kay Cosmetics have always relied on a bottomless pool of housewives both to buy and sell their products. Heath set out to appeal to career-minded women instead. His 9,000 sales reps pay $200 for 30 hours of training, plus another $300 for such tools as cases of beauty products and manuals. "The saleswoman has made a substantial financial commitment, so she's committed to it," says Heath, whose 50% turnover rate is one of the industry's best.

To attract customers, Heath's salespeople visit image-conscious businesses such as banks and real estate offices. They make a brief presentation to the manager, then put on a 45-minute workshop for female employees during lunch or after work. The next step is a free "color analysis" in their homes to help them choose the right makeup. "My lipstick is not that different from the next guy's," admits Heath. "So it's the service I add." It is a service that helped bring $23 million in sales and $3 million in earnings last year.

Both Mary Kay and Avon have toyed with similar strategies. Heath expects an ugly battle from the giants of the $15-billion cosmetics industry. "This is an industry in transition," he says. "Some of the giants may not be able to adjust, but the need for this service hasn't shrunk."

*Dick Heath, founder of BeautiControl*
**At first blush, his business idea sounded out of date.**

## HOW THE INC. 100 ARE SELECTED

The 1987 INC. 100 is the ninth annual ranking of the 100 fastest-growing publicly held smaller companies in the United States. Companies are ranked by the percentage increase in net sales (or total revenues) between 1982 and 1986.

■ To be considered for the INC. 100, each company must meet the following criteria:

**1.** The company is an independent corporation, not a subsidiary or division of another company. Regulated banks and utilities and holding companies are excluded.

**2.** The company was publicly held as of December 31, 1986.

**3.** The company shows an operating/sales history of at least five years.

**4.** The company's 1986 sales exceeded its 1985 sales. Companies showing growth over the five-year period, but a decline in 1986 sales are excluded.

**5.** The company's 1982 sales were at least $100,000, but no more than $25 million.

■ The INC. 100 research staff used company prospectuses, 10-Ks, annual reports, and various directories to maintain the in-house database of publicly held smaller companies. Using audited financial statements, researchers then ranked the top 100 companies.

■ An editorial team led by special projects editor Sara Baer-Sinnott and research assistant Deborah L. Weeks selected the 1987 INC. 100. The research was conducted by Judy Angelicola, Laura Ashe, David Coles, Elizabeth Kaplan, Teri Lammers, Lisa Pabich, Jodie Slothower, Ann Sussman, and Elizabeth Waters.

## INC. 100 INDEX

| Company (rank) | Company (rank) | Company (rank) |
|---|---|---|
| Advanced Telecommunications (13) | Duramed Pharmaceuticals (91) | Oracle (60) |
| American Businessphones (44) | EMC (68) | Patient Technology (74) |
| American City Business Journals (11) | Entre Computer Centers (21) | People Ridesharing Systems (64) |
| American Communications & Television (81) | Envirodyne (23) | Pre-Paid Legal Services (92) |
| American Network (4) | Expeditors Int'l (22) | Price Communications (8) |
| Apollo Computer (62) | Fibronics Int'l (67) | PSE (43) |
| Applied Biosystems (50) | Financial News Network (75) | Radyne (84) |
| Ashton-Tate (41) | FONAR (49) | Ross Stores (58) |
| AST Research (6) | Fountain Oil & Gas (70) | Sahlen & Associates (19) |
| ATI Medical (56) | Fuddruckers (85) | Saratoga Standardbreds (45) |
| AutoSpa (83) | Giga-tronics (71) | Satellite Music Network (86) |
| Ballard Medical Products (26) | Home Shopping Network (10) | Shanley Oil (20) |
| BeautiControl Cosmetics (55) | Informix (42) | Step-Saver Data Systems (76) |
| Ben & Jerry's Homemade (66) | Innovative Software (69) | Sterling Software (15) |
| Bio-Logic Systems (31) | Insituform Southeast (27) | Stratus Computer (59) |
| Bonneville Pacific (7) | Int'l Thoroughbred Breeders (88) | Symbion (30) |
| Brentwood Instruments (46) | Iomega (16) | Symbolics (24) |
| Cable Advertising Systems (82) | Jacor Communications (72) | TCBY Enterprises (52) |
| Cade Industries (14) | Kaypro (96) | Tech Data (78) |
| Calgene (87) | King World Productions (35) | Tekelec (47) |
| California Biotechnology (33) | Kings Road Entertainment (25) | Teknowledge (51) |
| Catalyst Energy Development (1) | Lam Research (9) | Telstar (53) |
| Cerner (99) | Lexicon (77) | 3Com (38) |
| Certified Collateral (54) | Lotus Development (2) | United HealthCare (57) |
| Chronar (79) | LSI Logic (34) | V Band Systems (73) |
| Circadian (97) | Manufactured Homes (89) | Video Science Technology (93) |
| CitiPostal (40) | MBI Business Centers (36) | Vitronics (48) |
| Codenoll Technology (100) | Memtek (95) | VM Software (94) |
| Computer Memories (28) | Mentor Graphics (17) | Walker Telecommunications (29) |
| Consolidated Stores (80) | MiniScribe (37) | Westworld Community Healthcare (18) |
| Datavision (63) | MMI Medical (61) | Wyse Technology (3) |
| DEST (98) | National Healthcare (5) | Xicor (90) |
| Doskocil (39) | New England Critical Care (65) | |
| | Newman Communications (32) | |
| | Northeastern Mortgage (12) | |

*Research assistance for "The INC. 100 Portfolio" was provided by Teri Lammers, Jodie Slothower, and Ann Sussman.*



PHOTOGRAPH: JEFF BAKER

# FROM RICHES TO RAGS ...AND BACK

## For the first time in four years, the INC. 100 outperformed the leading averages

*BY ROBERT A. MAMIS*

IT WAS A 12-MONTH PERIOD DURING which just about every imaginable market index erupted to an all-time high. So a casual investor might expect that the most imaginative index of all—INC.'s fanciful calculation of the market performance of the year's fast growers—would go along with the crowd. Indeed it did, but its gain of 36% barely nosed out most of the thundering herd of comparable popular indexes (see the box below).

Ordinarily in a roaring bull market, swift-moving stocks like the lightly capitalized throng tabulated here surge well out in front of the elephantine DJI. Four years ago, in a similarly frenzied atmosphere, they accomplished just that, netting a whopping 72% gain as the Dow posted 37%. That they didn't this time around is partly accounted for by a technicality, and partly by a new fact of investment life.

In 1986, the arithmetic divisor employed to keep the 30-stock DJIA from becoming distorted by splits, dividends, and listing changes hit an historic low at 0.889, having started out in 1928 at, of course, 30. Last year the divisor thus actually became a multiplier. The effect was that as the Dow's blue-chip components, chosen to represent the universe of U.S. industry, carried it into higher ground, the index gathered new statistical momentum and reacted with proportionately larger moves than ever before.

The new fact of investment life is simply that profitability is more important than sizzling sales growth. The rather puzzling circumstance that only 53 of the INC. 100 stocks advanced in a major bull market, during which no fewer than 28 of the 30 DJI stocks went up, shows what happens when revenue gains aren't brought to the bottom line. Nine of INC.'s top 20 sales gainers actually *lost* ground in the market; or in slightly different perspective, 27 of the list's 44 stock losers were nonetheless able to place in the top half of sales growth. This year especially, savvy stock traders were insisting that earnings accompany sales. Not only did holders bail out if earnings fell short of expectations, but new buyers were reluctant to jump back in, leaving the stock of many an income-poor corporation wilting on the vine.

With so many emerging issues to choose from—and those rendered increasingly accessible to institutions by NASDAQ's expanding automated market—no wonder speculative fervor dampened. The critical condition of Westworld Community Healthcare Inc. (WCHI), #18 in sales growth but the runaway booby-prizewinner here, demonstrates how fragile sales dollars can be despite their giddy rate of rise on paper. The precautionary tale told on page 59 is confirmed by the 92% drop of WCHI's stock, trading at the price of a few aspirin when last seen. The 99th-place stock, National Healthcare Inc.—also a rural medical service up to its ears in, let us say, entrepreneurial excess—didn't fare much better from its rank as INC.'s swift-grower #5.

### HOW THE INC. 100 STACK UP

Thirty-six percent profit or no, it's all academic, anyway, since no real-life investment could have been made in the 1987 INC. 100. On the "buy" date, February 28, 1986, not even Ivan Boesky could have revealed which companies were to qualify for the list that INC. researchers compiled nearly 12 months later.

To lend familiar substance to the whimsical outcome—and to cause each price change to be mathematically comparable with every other—INC. put $100 into each company at the price its stock was reported (by Standard & Poor's Corp.) to have been available on February 28, 1986, or as an initial public offering. The shares purchased with the fictional C-note were "sold" on February 27, 1987, thus cementing 53 gains, 3 washes, and, alas, 44 losses. Now that it's real, however, the list can be studied for future prospects.

**RELATIVE MARKET PERFORMANCE**

| | 2/28/86 | 2/27/87 | % change |
|---|---|---|---|
| DJI | $1,709 | $2,224 | 30% |
| S&P 400 | 250 | 323 | 29 |
| AMEX | 257 | 322 | 26 |
| NASDAQ IND'LS | 357 | 444 | 24 |
| INC. 100 | 100 | 136 | 36 |

# INC. 100 MARKET PERFORMANCE

| Company (symbol/exchange) | 1987 rank | 2/28/86 | 2/27/87 | $100 worth |
|---|---|---|---|---|
| **1. Home Shopping Network** (HSN/A)[1] | 10 | $18.00 | $33.00 | $1,100.00 |
| **2. ATI Medical** (ATIM/O)[2] | 56 | 2.00 | 10.25 | 512.50 |
| **3. CitiPostal** (CITI/O)[3] | 40 | 0.25 | 4.50 | 450.00 |
| **4. Sahlen & Associates** (SALN/O) | 19 | 0.81 | 2.63 | 323.08 |
| **5. Lotus Development** (LOTS/O)[4] | 2 | 24.00 | 23.00 | 287.50 |
| **6. Duramed Pharmaceuticals** (DRMD/O)[5] | 91 | 6.00 | 17.00 | 283.33 |
| **7. VM Software** (VMSI/O)[6] | 94 | 20.25 | 36.50 | 270.37 |
| **8. Oracle** (ORCL/O)[7] | 60 | 15.00 | 38.50 | 256.67 |
| **9. Ashton-Tate** (TATE/O)[8] | 41 | 23.00 | 26.50 | 230.43 |
| **10. Catalyst Energy Development** (CEDC/O) | 1 | 11.13 | 25.63 | 230.34 |
| **11. Telstar** (TSTR/O) | 53 | 0.13 | 0.28 | 225.00 |
| **12. New England Critical Care** (NECC/O)[9] | 65 | 10.00 | 22.25 | 222.50 |
| **13. MiniScribe** (MINY/O) | 37 | 5.69 | 12.13 | 213.19 |
| **14. 3Com** (COMS/O) | 38 | 10.88 | 22.88 | 210.34 |
| **15. Wyse Technology** (WYSE/O) | 3 | 13.50 | 27.88 | 206.48 |
| **16. Tech Data** (TECD/O)[7] | 78 | 9.75 | 20.00 | 205.13 |
| **17. Kaypro** (KPRO/O) | 96 | 1.44 | 2.94 | 204.35 |
| **18. Envirodyne** (ENVR/O) | 23 | 14.50 | 28.00 | 193.10 |
| **19. Informix** (IFMX/O)5 | 42 | 7.50 | 14.00 | 186.67 |
| **20. Ballard Medical Products** (BMED/O)[10] | 26 | 9.75 | 12.00 | 184.62 |
| **21. TCBY Enterprises** (TCBY/O)[11] | 52 | 24.25 | 19.25 | 178.61 |
| **22. Expeditors Int'l** (EXPD/O)[12] | 22 | 14.63 | 16.25 | 166.67 |
| **23. Datavision** (DVIS/O) | 63 | 1.88 | 3.13 | 166.67 |
| **24. EMC** (EMCS/O)[13] | 68 | 16.50 | 27.50 | 166.67 |
| **25. Memtek** (METK/O) | 95 | 1.63 | 2.69 | 165.38 |
| **26. Innovative Software** (INSO/O) | 69 | 12.00 | 19.75 | 164.58 |
| **27. Mentor Graphics** (MENT/O) | 17 | 17.25 | 28.00 | 162.32 |
| **28. King World Productions** (KWP/N)[14] | 35 | 39.75 | 20.75 | 156.60 |
| **29. V Band Systems** (VBAN/O)[15] | 73 | 26.75 | 27.50 | 154.21 |
| **30. Step-Saver Data Systems** (CODA/O) | 76 | 4.00 | 6.13 | 153.13 |
| **31. Price Communications** (PR/A)[16] | 8 | 9.25 | 11.25 | 152.03 |
| **32. Stratus Computer** (STRA/O) | 59 | 21.25 | 31.75 | 149.41 |
| **33. Financial News Network** (FNNI/O) | 75 | 9.50 | 14.00 | 147.37 |
| **34. Consolidated Stores** (CNS/A)[17] | 80 | 22.00 | 16.13 | 146.59 |
| **35. Cerner** (CERN/O)[9] | 99 | 16.00 | 22.25 | 139.06 |
| **36. Certified Collateral** (CARX/O)[18] | 54 | 16.00 | 14.25 | 133.59 |
| **37. Vitronics** (VITX/O) | 48 | 4.50 | 6.00 | 133.33 |
| **38. Xicor** (XICO/O) | 90 | 9.75 | 12.88 | 132.05 |
| **39. Apollo Computer** (APCI/O) | 62 | 15.50 | 20.00 | 129.03 |
| **40. Advanced Telecommunications** (ATEL/O) | 13 | 9.63 | 12.38 | 128.57 |
| **41. Applied Biosystems** (ABIO/O) | 50 | 32.00 | 41.00 | 128.13 |
| **42. Ben & Jerry's Homemade** (BJIC/O) | 66 | 14.50 | 18.50 | 127.59 |
| **43. Chronar** (CRNR/O) | 79 | 11.75 | 14.88 | 126.60 |
| **44. Fountain Oil & Gas** (FGAS/O)[19] | 70 | 0.50 | 0.63 | 125.00 |
| **45. DEST** (DEST/O) | 98 | 4.00 | 4.88 | 121.88 |
| **46. Teknowledge** (TKAI/O)[7] | 51 | 13.00 | 15.38 | 118.27 |
| **47. AutoSpa** (LUBE/O) | 83 | 1.13 | 1.31 | 116.67 |
| **48. California Biotechnology** (CBIO/O) | 33 | 16.00 | 18.38 | 114.84 |
| **49. American City Business Journals** (AMBJ/O) | 11 | 22.50 | 25.25 | 112.22 |
| **50. Bonneville Pacific** (BPCO/O)[20] | 7 | 9.00 | 9.75 | 108.33 |
| **51. Pre-Paid Legal Services** (LEGL/O)[21] | 92 | $14.75 | $12.63 | $106.99 |
| **52. People Ridesharing Systems** (RIDE/O)[22] | 64 | 8.25 | 8.00 | 106.67 |
| **53. Computer Memories** (CMIN/O) | 28 | 2.50 | 2.63 | 105.00 |
| **54. American Communications & TV** (ASTV/O) | 81 | 0.13 | 0.13 | 100.00 |
| **55. Jacor Communications** (JCOR/O) | 72 | 7.00 | 7.00 | 100.00 |
| **56. Radyne** (RADN/O) | 84 | 1.25 | 1.25 | 100.00 |
| **57. Symbion** (SYMB/O) | 30 | 2.81 | 2.75 | 97.78 |
| **58. Insituform Southeast** (ISEC/O)[5] | 27 | 7.75 | 7.50 | 96.77 |
| **59. American Businessphones** (ABPI/O) | 44 | 7.00 | 6.75 | 96.43 |
| **60. Calgene** (CGNE/O)[20] | 87 | 14.00 | 13.50 | 96.43 |
| **61. Saratoga Standardbreds** (STGA/O) | 45 | 2.88 | 2.75 | 95.65 |
| **62. Giga-tronics** (GIGA/O) | 71 | 13.00 | 12.00 | 92.31 |
| **63. Northeastern Mortgage** (NMA)[23] | 12 | 10.25 | 8.25 | 88.54 |
| **64. Sterling Software** (SSW/A) | 15 | 15.25 | 13.50 | 88.52 |
| **65. Manufactured Homes** (MNH/A) | 89 | 13.75 | 11.63 | 84.55 |
| **66. LSI Logic** (LLSI/O)[24] | 34 | 28.25 | 15.88 | 84.29 |
| **67. Entre Computer Centers** (ETRE/O) | 21 | 6.75 | 5.50 | 81.48 |
| **68. Cade Industries** (CADE/O) | 14 | 1.25 | 0.97 | 77.50 |
| **69. Fibronics Int'l** (FBRX/O) | 67 | 13.25 | 10.13 | 76.42 |
| **70. Satellite Music Network** (SMNI/O) | 86 | 6.50 | 4.75 | 73.08 |
| **71. AST Research** (ASTA/O) | 6 | 26.13 | 19.00 | 72.73 |
| **72. Kings Road Entertainment** (KREN/O) | 25 | 5.13 | 3.63 | 70.73 |
| **73. FONAR** (FONR/O) | 49 | 9.38 | 6.50 | 69.33 |
| **74. Codenoll Technology** (CODN/O) | 100 | 15.75 | 10.75 | 68.25 |
| **75. MMI Medical** (MMIM/O) | 61 | 7.50 | 5.00 | 66.67 |
| **76. Ross Stores** (ROST/O) | 58 | 12.00 | 8.00 | 66.67 |
| **77. Lexicon** (LEXI/O) | 77 | 4.63 | 3.00 | 64.86 |
| **78. Patient Technology** (PTI/A) | 74 | 7.38 | 4.75 | 64.41 |
| **79. Lam Research** (LRCX/O) | 9 | 11.88 | 7.50 | 63.16 |
| **80. Walker Telecommunications** (WTEL/O) | 29 | 8.38 | 5.19 | 61.94 |
| **81. Doskocil** (DOSK/O) | 39 | 1.75 | 1.06 | 60.71 |
| **82. Bio-Logic Systems** (BLSC/O) | 31 | 12.00 | 7.25 | 60.42 |
| **83. Tekelec** (TKLC/O)[2] | 47 | 12.25 | 7.00 | 57.14 |
| **84. PSE** (POW/A)[2] | 43 | 14.50 | 8.25 | 56.90 |
| **85. Cable Advertising Systems** (CABS/O) | 82 | 2.44 | 1.38 | 56.41 |
| **86. United HealthCare** (UNIH/O) | 57 | 13.88 | 7.63 | 54.95 |
| **87. American Network** (ANWI/O) | 4 | 3.00 | 1.63 | 54.17 |
| **88. Brentwood Instruments** (BRWD/O) | 46 | 7.25 | 3.63 | 50.00 |
| **89. BeautiControl Cosmetics** (BUTI/O)[7] | 55 | 16.00 | 7.25 | 45.31 |
| **90. Fuddruckers** (FUDD/O) | 85 | 4.63 | 2.00 | 43.24 |
| **91. MBI Business Centers** (MBOX/O) | 36 | 10.50 | 4.50 | 42.86 |
| **92. Video Science Technology** (VIDS/O) | 93 | 0.50 | 0.19 | 37.50 |
| **93. Iomega** (IOMG/O) | 16 | 17.50 | 6.13 | 35.00 |
| **94. Symbolics** (SMBX/O) | 24 | 12.13 | 4.00 | 32.99 |
| **95. Circadian** (CKDN/O) | 97 | 14.00 | 4.50 | 32.14 |
| **96. Newman Communications** (NBOC/O) | 32 | 3.25 | 0.88 | 26.92 |
| **97. Int'l Thoroughbred Breeders** (ITB/A) | 88 | 3.63 | 0.88 | 24.14 |
| **98. Shanley Oil** (SOCM/O) | 20 | 0.72 | 0.16 | 21.74 |
| **99. National Healthcare** (NHCI/O) | 5 | 14.63 | 3.00 | 20.51 |
| **100. Westworld Community Healthcare** (WCHI/O) | 18 | 14.50 | 0.75 | 5.17 |

[1]first public, 5/86; 3:1 split, 9/86; 2:1 split, 1/87 [2]first public, 5/86 [3]first price as merged entity, 5/86; recapitalized ¼:1, 2/87 [4]3:1 split, 2/87 [5]first public, 9/86 [6]3:2 split, 12/86 [7]first public, 3/86 [8]2:1 split, 1/87 [9]first public, 10/86 [10]3:2 split, 2/87 [11]3:2 split, 4/86; 3:2 split, 7/86 [12]3:2 split, 9/86 [13]first public, 4/86 [14]3:1 split, 9/86 [15]3:2 split, 2/86 [16]25% stock dividend, 1/87 [17]2:1 split, 6/86 [18]3:2 split, 8/86 [19]as of 10/86 [20]first public, 7/86 [21]5:4 split, 1/87 [22]10% stock dividend, 11/86 [23]first public, 5/86; 10% stock dividend, 2/87 [24]3:2 split, 3/86

Bookkeeper on vacation
Quarterly audit deadline
Need programming help
Books don't balance
Special project deadline
Accounts receivable to be analyzed
Data entry backlog
Payroll taxes due
Inventory to be checked

PRESSURE?

When The Pressure's On Bring In The Best.

The more the pressure builds up in your accounting, bookkeeping and data processing departments the more you may need professional temporary help. Accountemps.

Accountemps professionals are slightly over-qualified.* As a result, there's almost no break-in time. They'll come in, get off to a fast start and complete their assignments efficiently.

Our professionals are available immediately—wherever you need them—for a day, a week, a month or longer. One specialist or an entire team.

We're the largest specialized temporary service of its kind in the world with over 100 offices* on three continents.

For the best temporary accountants, bookkeepers and data processors—bring in Accountemps.

accountemps.
*Rent an Expert.*

©1986 Robert Half International Inc.
*Most offices independently owned and operated.

Circle No. 5 on Reader Service Card.

The 98th-place market performer, Shanley Oil Co., was INC.'s 20th-best sales grower; investors dumped the stock as the year's losses climbed.

Not that soaring sales are in themselves necessarily suspect. Second in revenue growth, Lotus Development Corp. efficiently converted operations-generated sales into steady earnings and thence into fourth position among stock performers. Taking quite a different route to the same goal, private CitiPostal Corp. maneuvered its stock swap with a dormant public company into virtually overnight market gains (see Finance: "The Perfect Acquisition," January), while acquisition-minded Sahlen & Associates Inc. used tax credits to enhance already climbing per-share earnings.

It falls to #1 Home Shopping Network Inc. (HSN) to set perhaps the most instructive example. Newly public in May of last year at a surprisingly reasonable $18 a

***This year especially, savvy stock traders were insisting that earnings accompany a growth in sales. Holders bailed out if earnings fell short of expectations.***

share, HSN stock proceeded to split twice as it took off on a dizzying ascent probably unmatched in the annals of underpriced initial public offerings (see Insider: "Making Mail Order Obsolete," October 1986). The stock of the television retailer reached 47—the presplit equivalent of 282—before tiring. But tire it did. HSN followers were let down by quarterly sales that more than quadrupled those of the prior-year quarter. Experts had predicted they'd be closer to quintupled. Within a few weeks, HSN stock had given back about half its gain.

Which goes to show that no matter how well a company performs, there's always someone who thinks it should do better. One might feel that way about the 1987 INC. 100, yet its positive performance far outshone last year's, when INC.'s group came in last among the averages. Even with misfortune yapping at the heels of a few wretched stragglers, the current upstarts managed to outpace the slow-and-steady tortoises of the Dow. And on balance they trounced the other fleet-footed hares in the over-the-counter market, whence 90 of INC.'s own entrants come. So our revenue growers must be doing something right, after all. □

# ORDINARY BUSINESS

*BY TOM RICHMAN*

**What would happen, my colleague John Case wondered aloud, if you took the INC. 100 list and stripped off all the obvious hyper-growth companies? Say you cleaned out all the running-shoe, computer, high-tech, biotech, health-care, fast-food, and communications businesses. Say you eliminated companies that trade on their locations in economic hot spots—Austin, Atlanta, or San Diego, for instance. How many companies, he wondered, would there be left?**

**Not many, it turns out. There are two horse breeders and a mortgage company, a sewer pipe repairer and a private investigator, an ice-cream maker, a vanpool manager, an air-freight forwarder, and two off-price retailers—altogether, about a dozen-and-a-half oddball businesses that don't fit the fast-growth stereotype. And they sure don't fall into neat categories. Some acquire; some don't. Some make; others sell. Two, the franchisor of auto-maintenance centers and the plastic cutlery and drinking-straw maker, have bankruptcies in their family trees; most do not.**

**Unifying themes? None apparent. In fact, these unlikely hyper-growth companies don't seem connected by much of anything except . . . well, they are unlikely. They're just ordinary businesses that somehow achieved warp speed. What in the world, I began to wonder, were a Kansas sausage-and-pepperoni maker, an Oklahoma insurance company, and a seller of cheap mobile homes—what were they doing consorting with the likes of Lotus Development (#2), Apollo Computer (#62), and Ross Stores (#58)?**

*PHOTOGRAPHS BY MARION ETTLINGER*

## ROBERT SAULS: MOBILE HOMES

MANUFACTURED HOMES INC.: SALES $120M; EARNINGS $2M; COMPOUND ANNUAL GROWTH 100%

***"The secrets to success are so damn simple that people just don't see 'em. So I don't want to tell the competition the simple things."***

Robert Sauls told me he read somewhere that raising the brain temperature one degree doubles one's thinking efficiency. So he gets the shower water as hot as he can stand it and runs it on his face and then on the back of his head. "I got to thinking about things so dang hard the other morning," he says in his brand-new Tampa office, "that I stayed in there for 36 minutes." Then he gets out and records any ideas he's had on a tiny dictating machine. "The good ideas you get," he says, "are so simple, it's hard to think of them again."

Sauls's down-home business—selling low-end mobile homes to rural southerners—has grown as fast as the kudzu vine to be the first or second largest of its kind in the country, depending on who's doing the counting. But it hasn't gotten any fancier, a lesson he picked up at the first trailer lot he opened. People kept driving through. "Finally I hollered at one. 'Hey,' I said, 'how come you don't stop?' The fella said he didn't think he could afford anything. That taught me a lesson: don't make it too fancy; just keep it neat."

Unsophisticated? Oh, yeah. Like when he bought a small manufacturer of mobile homes to back up his regular suppliers. He paid $856,000 for the plant, which produced pretax income of $800,000 the next year. "If I ain't mistaken," he offers, "it returned near 100% on our investment." Not bad for an orphan boy who never got through high school.

The company, Manufactured Homes Inc. (#89), is Sauls's second. The first, also a mobile-home retailer, he started in 1967, sold in '70, and stayed on to manage for the next three years. Then, idled by a noncompete clause, he spent two years planning his comeback. The difference, he says, is that he took the second company public. "A private company in this business can't get enough cash money to sustain it. Otherwise," he says, "there ain't nothin' changed." Same product, same market, same selling proposition.

Who's his market? "People who were born and raised in a farmhouse, hell, they think one of those mobile homes is a damn mansion." Sauls sells fully furnished and appliances mobile homes, strictly in the Southeast, and mostly to people who can't afford anything else. "I have found that it don't never change. In good times, these products sell along with others. In bad times, they're the *only* ones that sell."

Which means he's not plagued by repossessions. "Dealers forget," says Sauls, "that you got to live with those [financing deals] for 15 years, and in 15 years chances are you're going to get an economic downturn. Then people start looking around to see where they can move to save money. When they're in my [mobile homes], they find they are already there. They can't live cheaper anywhere else."

Why just the Southeast? Because five states there account for 37% of the entire national mobile-home market. Other retailers that have "gone runnin' off out yonder just because it's a hot market"—to Texas, for instance, when oil was booming—end up with a lot of used merchandise on their lots and no buyers when the hot market suddenly turns cool.

You can make a lot of money selling cheap trailers if you sell a lot of them, as Sauls does. "So," he says, "I can take a company that was just making a tad of profit and [by bringing it under the Manufactured Homes umbrella] make it a real profit center." Discounts for volume purchases help Sauls reduce the acquiree's cost of goods sold. His volume and reputation enable his dealers to command a larger cut of the bank's financing profit.

Sauls also insists that his dealers finance most of what they sell with recourse loans, which means that if the buyer defaults, the dealer gets the trailer back. It means he gets a lot more loans approved by the bank than if he were looking for non-recourse protection. And if a unit does come back, it's going to be pretty easy to resell. "There's two things we don't do," Sauls says. "We don't sign recourse on double-wides or on any mobile home with payments more than $300 a month." Why? Because the disassembly and reassembly makes repossessing a double-wide expensive, and because he doesn't want the high-priced homes coming back. The average factory worker in the Southeast, he says, makes about $310 a week. "Those are our people. If a big mobile home comes back,

I'm out of my marketplace. The majority of my people couldn't afford it."

The growth? It's mostly through acquisition. A mobile-home lot, like an auto lot, can serve only a limited local market. "After about six years," he claims, "it's doing all the business it's going to do." To start a new site from scratch, raise it to profitability, and then recoup the start-up losses takes, Sauls says, about a year. Better to buy a going operation—but not until the seller is good and ready to sell. He started talking to the owner of a chain of Florida sales sites a year and a half before the deal closed. "We don't pester people. We decide what we want to pay and either we do it or not. . . . The first time, the man told me what he'd take for it. . . . This last time, he asked me what I'd give him," Sauls recalls. "That put a different light on it."

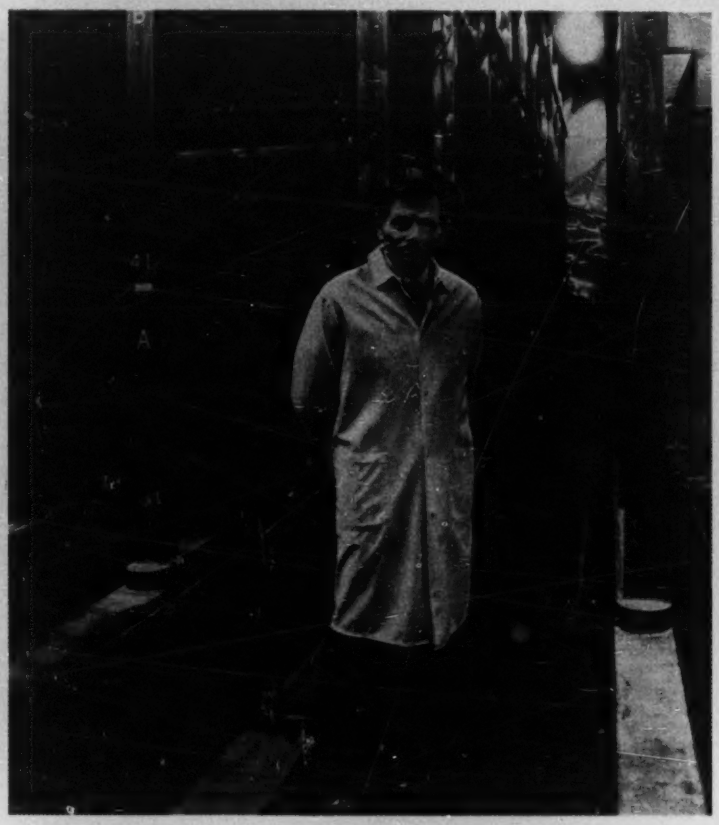
Sauls buys management, not just the lot. "So far as employees are concerned," he says, "that man still runs the company. That's the only way it'll work." There's a five-year earnout period, the details of which he doesn't want to discuss.

And there's the five-to-one management structure, which he also doesn't want to talk about. "The secrets to success are so damn simple that people just don't see 'em. So I don't want to tell the competition the simple things."

Elaborate management mechanisms confound him. "You can control lots of things without controlling 'em," he says. Meaning? Meaning, for instance, he doesn't have any fancy rules for how many times managers should turn over their inventory. He promises them a 10% bonus for every annual turn of over three and a half.

Suited up, Sauls, 58, could be a banker, lawyer, or doctor in any small southern town. He's got the thinning gray hair, the soft white hands. The new office in a Tampa high rise is Sauls's attempt, undertaken with some reluctance, to distance himself from the new management he's installed in the Winston-Salem, N.C., corporate headquarters. "I've been there so damn long, people have a problem accepting other people's authority while I'm still there. The only way for me to solve that is to get out."

Freed of routine responsibilities, Sauls can play the chairman's role—like considering new opportunities. He's thinking about mobile-home developments, for example. But he's got a one-button speed dialer on his telephone so no one back in Winston-Salem gets to feeling too important. "An individual who thinks he's a real wheel just disgusts the hell out of me. A wheel is something for a dog to cock his leg up at." Or tries to get too fancy. "I tell 'em you can make money off some of the people all of the time. . . . I understand these people because I been one of them all my life. . . . I was brought up real hard, worked all my life, and never had nothin'. . . . There's more people in that category than in any other in the country."



DOSKOCIL COS.: SALES $223.9M: EARNINGS $4.7M; COMPOUND ANNUAL GROWTH 142%

***Look around the plant. That's where you see it: production efficiency. Most everything, including the walls and floors, came out of Doskocil's head.***

## LARRY DOSKOCIL: PIZZA TOPPINGS

Twenty-six years ago, Larry Doskocil wanted only to be the best sausage maker in Kansas. Now, he wants to build a billion-dollar business. You might wonder whether the man who can do one can also do the other.

Doskocil's story is classic. Fired by his vision, young Larry leases an old chicken hatchery in Hutchinson, Kans., about 45 minutes from Wichita, and starts his business. From five a.m. till noon he makes sausage; from noon till five he delivers it to retailers; evenings, he kills hogs for the next day's production; nights, he sleeps on a cot in the plant. As business picks up, he hires a man to drive the truck and then hires another.

The next year, 1962, hungry Larry stops to eat at a Pizza Hut Inc. franchise, a small start-up chain out of Wichita. The local owner buys some Doskocil sausage to crumble on top of his pizza, and before you can say double cheese with pepperoni, Larry Doskocil finds his market in the about-to-boom pizza industry. As Pizza Hut and later Godfather's Pizza Inc. grow, so grows Doskocil. By 1981, Larry Doskocil—modest, reserved, and seriously religious—isn't just the sausage king of Kansas; he's on his way to becoming the pizza-topping king of the country.

Now what?

Good question. It comes up frequently in Hutchinson these days, where there's a general notion that as growth in pizza flattens out, the company ought to be building on its strengths—whatever those are.

What was it that fired Doskocil's growth?

Luck—stumbling into the pizza market just as it started to climb—helped. Of course, Larry Doskocil had the good sense to recognize a growth opportunity and the gumption to pursue it. What else? Not marketing. The company sold to just a few huge chains and didn't worry about cultivating the proliferating smaller buyers and independents. It had no marketing department. Not much new-product development. Sausages and pepperoni—that's what the company made. Not fancy financing. Larry Doskocil just used earnings and Small Business Administration guaranteed loans to pay for the growth.

Look around the plant, though. That's where you see it: production efficiency. Most everything in there, including the walls and the floors, came out of Larry Doskocil's head. He's always been willing to spend money up front if the expenditure would save over the long run. Precast concrete walls, he determined, would reduce his long-term maintenance and cleaning costs. When he couldn't get precast locally, he manufactured his own. He made his own superefficient insulation—better than what he thought was available commercially—to save energy costs. For reliability of supply, Doskocil Cos. (#39) owns its own gas wells. It made or modified all its own production equipment and automated any processing step in which automation made sense. As soon as he put a machine to work, Larry Doskocil began tinkering to improve its efficiency while he worked at designing the next generation. Doskocil wasn't just the largest supplier of pizza toppings and still growing, Larry Doskocil made sure it was the low-cost quality producer.

Rather, it used to be. Now, he's not so sure.

In 1970, when Doskocil was still privately held, Larry Doskocil gave 40% of the stock to some of his key managers. In a few years, the predictable liquidity issue flared: what good is the stock, some of his new partners wanted to know, if we can't convert it to cash? A few of them got persistent. Larry entertained but rejected offers from other companies to buy the business. How much was it really worth? He didn't know, and anyway, did he really want to quit? He's only 56 today. He hired an experienced chief financial officer to help him sort things out, and Larry Doskocil, who used to make just sausage, now started making deals.

Doskocil and his partners hired an investment banker, who eventually advised them to sell, but they wound up instead in 1983 doing a reverse merger with a corporate shell partly owned by the Bass brothers' organization, in Fort Worth. After a public offering to retire the bank debt that funded the merger, Doskocil emerged with a public market for its stock, a healthy balance sheet, some nice tax-loss carryforwards, and a working relationship with some Texas wheeler-dealers who took a shareholder's interest in the company's fortunes and who helped it hit the acquisition trail. They bought Stoppenbauch Inc., a pepperoni, smoked meat, and cheese maker in Wisconsin. They bought a crabmeat processor in South Carolina. They considered but rejected a poultry deal.

So by '85, Doskocil had all the strengths it didn't have before: fancy financing capabilities, thanks to (another) new CFO and the Bass connection; a marketing organization, thanks to new chief executive officer Harold Dick and his McKinsey & Co., Frito-Lay, and Norton Simon background; product diversity—and a spot on the INC. 100—thanks to the acquisitions; and a more ambitious long-range goal, thanks to chairman of the board Larry Doskocil. The deal with the Basses "blossomed us out," he says. "It showed us what we can do, which is more than just make sausage. . . . We grew up with the pizza industry, but now we got to get off that shirttail because it's growing too slow. . . . We need to find that next magic product." That, he says, is his job now.

Great. Except that in the meantime, the company lost its productivity edge.

Gross margins and net income began to slide in '85 and continued into '86. Doskocil ran into price resistance. Competitors had caught up to its processing technology and productivity. The company had lost its cost advantage. "We're no longer five years ahead," says Larry Doskocil, "not even three years."

Who can fix it? "It's Larry," says CEO Dick. "Last summer I asked him, 'Larry, would you please go back on the production floor?' " He did.

So the real question is whether one man can be the best sausage maker in Kansas *and* build a billion-dollar business, both at the same time?

## HARLAND STONECIPHER: LEGAL INSURANCE

Harland Stonecipher, founder and chairman of Pre-Paid Legal Services Inc. (#92), complained in a newsletter interview not long ago that the biggest barrier to his company's success was skepticism. "People always want proof that something new will work," he said.

Well, shouldn't they?

"A second barrier," he added, "has been a disbelief in anything originating in rural America. Rural Americans are intelligent, though, even if they are not given proper credit."

Who's picking on rural Americans? Bob Sauls and Larry Doskocil couldn't *be* any more country, and nobody sells more trailers or pizza toppings than they do. That kind of native business sense we could use more of. But, Mr. Stonecipher, look at this business you're in.

You're touting a supposedly professional product that nobody ever heard of. You push it with the same kind of multilevel marketing scheme that Amway and Herbalife International use to sell soap and funny diet plans. Your company devours cash. The biggest balance sheet asset is expenses you've already mostly incurred. The annual report reads like a revival meeting handbill, and the financial footnotes mention enough related party transactions to give Ivan Boesky gas. Furthermore, you're doing this in a place that calls itself Ada, America, and when this outfit shows up on the INC. 100, you don't think a little skepticism is in order? Hey, lighten up. Where is this Ada, America, anyway?

To paraphrase Harland Stonecipher, a man with a sense of humor, I hope . . . Ada, as even a city fool with a map could see for himself, is in horse country about two hours' drive southeast of Oklahoma City. Down here we serve up chicken-fried steak, iced tea, and lots of smiles.

Now, if you want to know, there're two reasons why we're on that list. We've got a product that meets a need, and we've got a sales force that delivers it. I know that doesn't sound very complicated, but that's what it is.

Back in '72 I had this idea to sell legal insurance. We've got lawyers everywhere, but only rich people and poor people get to use 'em. So I thought I'd sell this insurance to folks in the middle. That's about 80% of the population. It's not new. They've been doing it in Europe since the early part of the century. You pay us a monthly or annual premium (about $160 a year), and, just like medical insurance works with doctors, we pick up your lawyer's bills—whichever lawyer you want to use. We pay only for covered services, however, and only up to specified limits. But the policy does cover most of the common legal problems people run into—such as car-related issues and tax audits.

Well, I was going along slow but sure selling group policies, when in '83 my friend John Hail said, "Harland, did you ever consider multilevel marketing?" I told him that I was no Glenn Turner and I didn't want any part of it, but if he wanted to try on his own, he could go ahead. "Just don't mess up the business I have going." So he started his own little marketing company, and inside a year he had 13,000 people selling my policies to themselves and their friends. I saw pretty fast that that was the way to go. So we brought John's organization inside ours, and we just took off from there.

Multilevel marketing upsets some people, but in truth it's no different from any other sales force. Think about it. They're all multilevel. You've got salespeople and district managers and regional managers and sales managers and vice-presidents of sales. The only thing different about our organization is that nobody decides when

PRE-PAID LEGAL SERVICES INC.: SALES $40M; EARNINGS $2.3M; COMPOUND ANNUAL GROWTH 98%

***Eventually the Prudentials of the world are going to figure out that we're onto something good, and when they do, we want to be there already.***

you get promoted. The computer decides. It doesn't matter how you dress or whether the boss's wife likes you. The only thing that matters is how much you sell. You don't get money or promotions for bringing anybody into the organization, but you do get an override on anything they sell. The point is, nobody makes any money until a sale is made.

Now, we've got 155,000 associates selling policies for us and close to 500,000 members. We'd have more if we weren't doing business in just 22 states. Lots of times state insurance regulators don't know how to treat this product. It's the first time they've seen it, so expansion takes time.

About the annual report—you got something against enthusiasm? People need to be motivated, you know.

And the balance sheet—check it out. That's the way insurance companies always handle policy acquisition costs. You don't expense them; you amortize them to match the revenue flow. And we're conservative here. If we never sold another policy, we'd still recover our costs and a profit on the policies we've already sold.

Related party transactions? Sure, we reinsured some policies through company officers. They paid us cash for the future premium flow. It's just a financing device to help us raise cash, and nobody made any money on it.

However, you're right about devouring cash. First-year commissions on a policy come to 71% of the premium, which makes growth very expensive for us. I've spent 90% of my time looking for cash to keep this company growing. We could grow without it—just use our profits—but we've got to grow faster than that. Eventually the Prudentials of the world are going to figure out that we're onto something good, and when they do, we want to be there already. Montgomery Ward has already started selling a legal insurance product.

So you can be just as skeptical as you like about us, but not everybody is. Last night, for instance, I think we solved all our cash problems and some other problems, too. See this letter of intent? I. C. H. Corp., in Louisville, an insurance-holding company with about $8 billion in assets, is going to invest a bunch of money in us—about $10 million to start—in exchange for an option on some of our stock. I. C. H. chairman Bob Shaw spent three days here in Ada last week. "Harland," he said to me, "if you stayed at this 15 years, you must think it'll work."

So, what's that say about your skepticism?

IT TELLS ME THAT SKEPTICISM IS A healthy attitude when you don't know whether someone's on the level or not. I.C.H. checked Pre-Paid out with a lot of people before deciding to invest.

But later it occurred to me that Bob Shaw, whom I've never met, saw in three days what people who write about business—who look for the dramatic, the unique, and the sexy—sometimes don't see at all: that glitz and glamour and technical virtuosity aren't everything; that plain old perseverance, conviction, and tenacity still count for something in building a company. Those, I think, are the characteristics that connect these oddball businesses, and they're the answer, I guess, to our question: what in the world are these companies doing on the INC. 100? They earned their spots the hard way. □